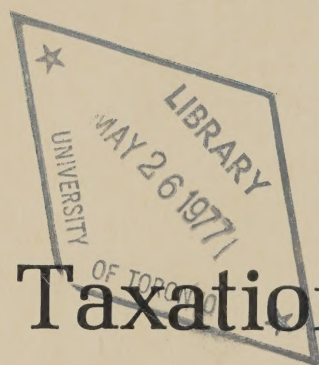


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Report of
The Commission
on the
Reform of Property Taxation
in Ontario



SUMMARY





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in Ontario

SUMMARY

Copies of both this *Summary* and the full
*Report of The Commission on the
Reform of Property Taxation in Ontario*
may be obtained free of charge
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Ministry of Treasury, Economics
and Intergovernmental Affairs,
Regional Field Offices⁽¹⁾

Ministry of Revenue,
Regional Assessment Offices⁽¹⁾

⁽¹⁾The addresses of these offices are shown in
the respective local telephone directories,
listed under 'Government of Ontario'.

Introduction

Proposals for property tax reform, to coincide with the introduction of market value assessment, were presented in the 1976 Ontario Budget and reprinted in Budget Paper E under the title, Reform of Property Taxation in Ontario.

The implementation of market value assessment follows the major restructuring of both school boards and municipal government units which has taken place over the past eight years. The position of local government has also been strengthened by a system of grants and tax credits. The reform of property taxation is the next phase in this program to enhance the financial viability of local government in the Province.

In order to ensure that changes are implemented in an efficient and fair manner, the Government established, in 1976, the Commission on the Reform of Property Taxation in Ontario to review the Proposals contained in Budget Paper E and to make recommendations on these Proposals and any other proposals relating to property taxation.

The Commission received some 2,400 submissions, letters and deputations from municipalities, school boards, organizations and individuals, and its Report has now been presented to the Government.

The Summary which follows is a condensation of the full Report, and is designed to provide the public with a quick reference to the Commission's Recommendations and a brief overview of the reasoning that underlies the Recommendations.

To obtain a full and detailed understanding of this important subject and of the Recommendations that now have been submitted to the Government, one must refer to the full Report of the Commission.

Copy of an Order-in-Council approved by Her Honour the Lieutenant Governor, dated the 5th day of May, A.D. 1976.

The Committee of Council have had under consideration the report of the Honourable the Premier, wherein he states that,

WHEREAS the Government wishes to ensure that property taxation based on market value assessment is implemented in an efficient and equitable manner:

The Honourable the Premier recommends:

1. THAT a Commission be established to review certain proposals with respect to property taxation in Ontario which were set out in the 1976 Ontario Budget, Budget Paper E, entitled Reform of Property Taxation in Ontario (hereinafter referred to as the "Proposals"). The Proposals are:

1. Residences in Ontario, collectively, will bear a reduced share of property taxes.
2. Residential property will be redefined to include only residences and a reasonable amount of land.
3. The present practice of levying different mill rates on residential and commercial properties will be discontinued.
4. Farmland, farm buildings, managed forests and farm residences will be assessed at market value. Farmland, farm buildings and managed forests will be taxed at 100 percent of market value and the taxes will be paid by the Province. Farm residences will be taxed as all other residences at 50 percent of market value and the taxes will be paid by the owner. There will be provision to recover taxes paid by the Province if the property changes use.
5. All real property used for the purpose of a business including government administrative facilities will be subject to an additional assessment of 50 percent of market value for business taxes.
6. All public property except residences will be subject to payments in lieu of taxes equal to full taxes at 100 percent of market value. Public residences will be subject to payments in lieu of taxes equivalent to full taxes at 50 percent of market value. Public utilities will be subject to business assessment at 50 percent of market value.

7. As is the present case, churches, cemeteries and property held in trust for a band or body of Indians will be exempt. All other presently exempt property will be taxed at 100 percent of market value, except residences which will be taxed at 50 percent of market value.
 8. A uniform method of phasing-in the new tax system over a period of up to five years will be available to prevent abrupt tax changes.
 9. Assessment rolls will be returned and enumeration will be performed every two years to coincide with local government elections.
 10. Assessment on provincial government property will be pooled and assigned between the public and separate elementary schools in the same proportion as the taxable assessment assigned by the owners and occupants of residences.
 11. Costs shared among municipalities will be shared on the basis of the assessment on which taxes and payments in lieu of taxes are based.
 12. Where assessment is to be used to determine the grant to be paid to a municipality, the assessment used will be the assessment on which taxes and payments in lieu of taxes are based.
 13. The provisions of The Assessment Act will apply to the assessment of all real property in Ontario, including areas without municipal organization.
 14. Public bodies which receive provincial grants, such as school boards, will be allowed to include their property tax payments as allowable expenses for grant purposes.
 15. Ontario's property tax credits which relate property taxes to the ability to pay will, if necessary, be strengthened upon implementation of the new system.
2. AND THAT the following persons be appointed members of the Commission:

Willis L. Blair, Toronto
Allan R. Cooper, Toronto
John S. Darling, Waterloo
Henry E. Davis, Essa Township
Joseph W. Fyfe, Sudbury
M. Dean Henderson, Mississauga
Edward E. Mitchelson, Niagara Falls
Irene Mooney, Kingston
Robert P. Simon, Mississauga
Ronald K. White, London Township

and that Willis L. Blair, Toronto, be designated Chairman of the Commission and that Lawrence Close, Oakville, be appointed executive secretary to the Commission.

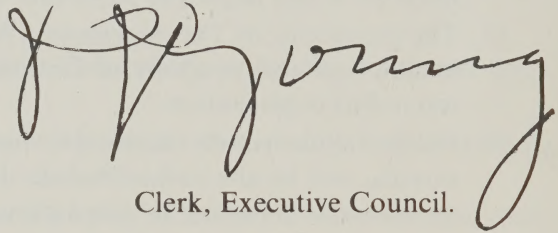
3. AND THAT the Commission receive submissions from municipalities, school boards, organizations and individuals with respect to the Proposals concerning property tax in Ontario and that the Commission make recommendations on these Proposals, and any other Proposals relating to property tax submitted to the Commission, to Cabinet by November 30, 1976.

4. AND THAT the Commission in studying the Proposals make use, where appropriate, of the services and facilities of any ministry, board, commission or agency of the Government of Ontario.

5. AND THAT each member of the Commission, with the exception of the Chairman, receive \$85 per diem and that all members be reimbursed for actual expenses incurred, these to include accommodation, meals and transportation in respect of meetings and other related business, provided that any additional expenses incurred by the Commission for administrative purposes shall be subject to the approval of Management Board of Cabinet.

The Committee of Council concur in the recommendation of the Honourable the Premier and advise that the same be acted on.

Certified,

A handwritten signature in black ink, appearing to read "J. D. Young", is written over the printed text "Clerk, Executive Council.".

Clerk, Executive Council.

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Chapter I

Overview for Reform

At the outset, the Commission establishes the property tax as the appropriate means of meeting local government financial requirements.

It rejects as irrelevant the difference that is assumed by many to exist between “services to land” and “services to people”, recognizing that there are only services demanded by people.

The Commission also dismisses arguments in favour of financing education costs entirely from income tax revenue with the following comments:

- the provincial personal income tax rate would have to be set at an excessively high level;
- the loss of property tax as a business deduction for income tax purposes would shift significant funds to the Federal Government;
- the contribution of non-residents would be lost; and
- fewer taxpayers would shoulder the bill, making the burden that much heavier.

The property tax is endorsed because of its responsiveness to local decisions, its visibility and, therefore, its focus on local fiscal responsibility. The Commission rejects the notion that the amount of property tax should recognize and directly relate to services received by taxpayers by pointing out that no one makes the same demands of the income or sales tax. Neither does the Commission accept regressiveness in the property tax as justification for its abandonment—such regressiveness as may exist can be corrected with a property tax credit.

The Commission states that the property tax is a levy on wealth in the form of real property. As such, that wealth represents a stake in the community and it is fair to ask a person to pay towards local costs in the direct relationship to what he has at stake. The Commission could not accept that wealth in real property indicated a lack of capacity to pay; the property owner does have a choice in the deployment of that wealth, while others such as those renting apartments, may not possess this choice because they may lack that wealth.

A municipally-administered income tax is rejected as creating more problems than it solves. A uniform municipal income or sales tax collected and distributed by the Province is rejected since this approach would result in excessive rates. The property tax accounts for approximately \$3 billion and current provincial grants to local government are another \$3 billion. On the other hand, provincial revenues from the

personal income tax, corporation taxes and the sales tax are \$1.6 billion, \$1.1 billion and \$1.3 billion, respectively.

The Commission accepts the Government's statement of the need for property tax reform as contained in Budget Paper E, without further elaboration.

The Commission develops a framework of four principles within which it considers the Government's Proposals for reform. Principle 1 endorses the concept of assessing all property at market value because it would show the property owner's relative stake in his community and be most generally understood. In its Principle 2 (which also forms its Recommendation 1), the Commission defines real property for assessment purposes. The definition essentially exempts all machinery and equipment from assessment unless it is necessary to the functional use or habitation of the structure. Principle 3 supports the levying of a uniform mill rate on residential and commercial properties. Principle 4 calls for the same property tax treatment for similar properties used for similar purposes irrespective of ownership or location. This last principle is intended to clarify the situation of a private and public body providing the same service or a business operating in exempt property.

Summary of Principles

- I:P1** That all real property be assessed at market value.
- I:P2** That real property liable to assessment include land and any building or other structure on it including only such machinery and equipment as is a part of such a building or structure and is used or required primarily for the functional operation of the building or structure or to make it more habitable, and include those foundations as are used in the support of the building or structure only.
- I:P3** That the present practice of levying different mill rates on residential and commercial properties be discontinued, and instead a uniform mill rate be employed.
- I:P4** That similar property used for similar purposes be treated in the same manner, irrespective of the status of the owner or its location.

Summary of Recommendations

- I:R1** That real property liable to assessment include land and any building or other structure on it including only such machinery and equipment as is a part of such a building or structure and is used or required primarily for the functional operation of the building or structure or to make it more habitable, and include those foundations as are used in the support of the building or structure only.

Chapter II

Assessment

The Commission reiterates that assessment values are fundamental to fairness and equity in the application of a real property tax. To clarify the lack of understanding of “market value”, which the Commission found in its public meetings, the five alternative approaches to determining market value of real property as identified by a Superior Court decision are repeated:

- (1) A recent free sale of the property itself where neither the conditions of the property nor the market have since changed;
- (2) Recent free sales of identical properties in the same neighbourhood and market;
- (3) Recent free sales of comparable properties;
- (4) The price which the revenue producing possibilities of the property will command;
- (5) The depreciated replacement cost of the property itself.

A “free sale”—referred to in the above criteria—is a property sale by a willing seller to a willing buyer, neither being under compulsion to sell or buy.

The Commission contends that there are two elements essential to the assessment process. They are: (1) a uniform base on which all properties should be valued; (2) no interference with the assessment base to recognize special considerations. Should special considerations be given for the taxation of certain property, it should never be done by altering the assessment base itself.

The market value assessments to be used in the first year of the new tax system are 1975 values. To avoid confusion, the Commission recommends that 1977 assessment notices clearly state that the assessments are 1975 market values. The Commission recommends the repeal of Section 90 of The Assessment Act which requires that reference be made to the value of similar properties in the vicinity when appealing the value of a property. This Section was seen as perpetuating discrimination between classes of real property. The Government’s intention to hold “open house” sessions to inform the public of tax shifts occasioned by market value assessment and the implementation of tax reform measures is supported by the Commission. The Commission anticipates that public criticism and scepticism regarding the assessment and appeal processes will disappear when market value assessment is introduced and better

understood. To allow greater access to the appeal process, the Commission recommends that the Assessment Review Courts extend their hearings to some evenings.

Summary of Recommendations

- II:R1** That the 1977 assessment notices state that the assessed value is 1975 market value.
- II:R2** That Section 90 of The Assessment Act be repealed.
- II:R3** That the Government conduct “open house” sessions in the course of 1977 so that the public may be better informed as to the impact of market value assessment and tax reform measures as they will apply when implemented.
- II:R4** That Assessment Review Courts extend their hearings to some evenings.

Chapter III

A Proposed Property Tax System

In its Report, the Commission follows the sequence of the Government's 15 Proposals in Budget Paper E.

1. Taxes on Residences

The Commission supports the Government's Proposal that residences, as a whole, bear a reduced share of property taxes, given the same local expenditure level as under the present system.

Therefore, the Commission recommends that residential property, together with a reasonable amount of land, be taxed on 50 percent of its market value. It further recommends that the percentage be re-examined every two years and that for simplicity and ease of understanding the percentage be revised in changes of 5 percentage points.

The Commission does not feel that the taxation on 50 percent of market value is a departure from its Principle 1 to assess all property at market value. Whereas market value is valid for comparisons within property classes, e.g. residences, it is not necessarily valid between classes, e.g. residences and industrial properties. In arriving at this conclusion, the Commission considered the following: the non-deductibility of residential property taxes for income tax purposes, the recent large increase in residential market values, the possible shift of tax revenue to the Federal Government, and the general economic equilibrium that exists under the present property tax system.

Taxes on multiple rental residences will be reduced more substantially than taxes on single family dwellings. The Commission recognizes this as a correction of past distortions and not an introduction of unfairness. The difference in market values of apartment units and condominium units is seen as being valid because the former are part of a wholesale market for rental buildings while individual condominium units are a part of a retail market.

The Commission rejects the suggestion that older inner-city houses receive preferred tax treatment because they may face tax increases that would force their elderly or immigrant occupants to vacate. The Commission feels that only lack of income (not age, national origin or location) would lead to difficulty in paying the tax bill. This problem, the Commission feels, more properly can be resolved by a tax credit.

So that no owner or tenant of a rental residence reaps windfall gains, or is unduly penalized, a flow-through of tax changes resulting from tax reform, and extending for a specified time period, is recommended. The Commission further recommends that mobile homes contribute a reasonable share to local revenue by way of either property taxes or a licence fee.

Summary of Recommendations

- III.1:R1** That residential property together with a reasonable amount of land be subject to taxable assessment at 50 percent of its market value.
- III.1:R2** That the appropriateness of the residential market value percentage be reviewed by means of monitoring the real estate market, and that if necessary this percentage be revised each two years, coinciding with the return of assessment rolls (see Proposal 9).
- III.1:R3** That necessary revisions in this percentage be made in increments of no less than 5 percentage points.
- III.1:R4** That, where taxes change as a consequence of tax reform, legislation be enacted to provide that notwithstanding existing contractual obligations, an owner may increase rental charges in the amount of such an increase in taxes, while a tenant may claim from the owner any such decrease in taxes; and that this provision operate during the term of any existing lease or for a period of five years, whichever is the shorter.
- III.1:R5** That mobile homes which qualify as real property and a reasonable amount of land be subject to a taxable assessment at 50 percent of their market value as are all other residences, and that those which would not meet the real property test, be subject to a licence fee of up to \$20 per month, regardless of location; and that the aggregate yield of such licence fees then be distributed to each of the bodies entitled to share therein, in the same proportion as they would have shared had the mobile home been taxable residential property.

2. Residential Property Redefined

The Commission considers that only property which provides shelter, as a residence, should be taxed on 50 percent of market value. Shelter to accommodate a temporary sojourn is excluded. Vacant land, even if zoned for residential use, is excluded as the Commission feels that only shelter merits preferred treatment. The Commission feels that the decision on what constitutes a reasonable amount of land should be judged on individual circumstances and not by rigid standards. This, it is felt, would allow fairer treatment as it would recognize local practices and standards.

Recreation is recognized as a factor contributing to the quality of life but not essential to life itself. The Commission, in recognition of the large tracts of land required for some recreational pursuits, e.g. golf, skiing, and camping, recommends that municipal councils be permitted to grant tax deferrals of up to 50 percent of the taxes on the land. The deferred tax with interest would be paid upon sale or conversion to other uses. The entire cost of the deferral would be borne by the municipality as it would not affect apportionment or grant calculations. In making this Recommendation, the Commission dismisses requests for market value in present use and market value based on zoning. The Recommendation would not extend to government-owned land or privately-owned land for an individual's use.

The provision in The Assessment Act to assess railway rights-of-way at the value of adjacent property is felt to restrict the railways' right of appeal. It is therefore recommended that this provision be repealed. Certain railway properties which are not currently assessed and taxed are, with the exception of bridges, recommended for assessment and taxation.

All statutory provisions for exemption or preferred tax treatment of lodges and associations are felt to be inconsistent with the Commission's framework of principles. It is therefore recommended that these organizations be assessed at and taxed on 100 percent of market value.

The Commission recommends that the statutory assessment rates per foot of pipeline be reviewed and revised every two years to reflect any relative changes in market value.

It is recommended that conservation authorities be assessed at and taxed on 100 percent of market value except where their properties are residences, farms or managed forests, when the provisions accorded to these properties would apply.

Arguments for more or less preferential treatment of cottages vis-à-vis permanent residences are rejected. Student residences and the residential portion of homes for the aged are included in the definition of residences.

Summary of Recommendations

III.2:R1 That the practical consideration of what constitutes a reasonable amount of land to be included in the residential class in each instance be judged on the individual circumstances.

III.2:R2 That existing legislation, empowering municipalities to enter into fixed assessment agreements with golf courses be rescinded and be replaced with legislation which will permit the owner of such recreational property as described, to apply to the local municipal council for a deferment of up to 50 percent of the total property tax (other than local improvement charges) applicable

to the relevant land only; and that the deferred taxes be accumulated on the books of the municipality, together with simple interest thereon at the weighted average annual bank prime lending rate, to be recoverable upon the sale of that land for purposes other than its current use or upon its conversion to other uses.

III.2:R3 That Section 38(2) of The Assessment Act be rescinded, and that railway rights-of-way be assessed at a market value related to the characteristics of such property.

III.2:R4 That all real property owned by a railway, including railway buildings and other similar structures, but not including bridges, be assessed at and taxed on 100 percent of its market value.

III.2:R5 That property owned by lodges and associations such as described, be assessed at and taxed on 100 percent of its market value.

III.2:R6 That permissive legislation, which allows for favoured tax treatment of property owned by the Navy League, and the Canadian Legion, and other veterans' associations be withdrawn, and that such property be assessed at and taxed on 100 percent of market value.

III.2:R7 That rates applied per foot of length of pipeline be reviewed and revised each two years, coinciding with the return of assessment rolls, so that these rates may reflect the relative change in the market value of other real property.

III.2:R8 That all real property owned by a conservation authority be assessed at and taxed on 100 percent of market value except where such property is residential property as defined, in which case the taxable assessment is to be 50 percent of market value at inception, and except that where such property is farmland or a managed forest, it be treated in accordance with our Recommendations as outlined under Proposal 4.

III.2:R9 That such part of a home for the aged or a nursing home as is used for residential purposes together with a reasonable amount of land, carry a taxable assessment at 50 percent of its market value, while such part as is used for administrative purposes, carry a taxable assessment at 100 percent of its market value.

3. Mill Rates

The Commission supports a uniform mill rate on residential and commercial property. This would provide a more effective focus on the level and growth of local spending as well as provide administrative simplicity.

Summary of Recommendations

III.3:R1 That the present practice of levying different mill rates on residential and commercial properties be discontinued.

4. Farms and Managed Forests

The Commission rejects the concept of market value in use or a productivity value for farmland. The Commission sees the input of funds under the Government's Proposal as a replacement of existing grant funds and therefore not likely to effect local autonomy or local expenditure levels.

In Budget Paper E, the Government proposed that farmland, farm buildings, managed forests and farm residences be assessed at market value; that farmland, farm buildings and managed forests be taxed at 100 per cent of market value and the taxes be paid by the Province. Farm residences would be taxed as other residences at 50 percent of market value, the taxes to be paid by the owner. There would be provision to recover taxes paid by the Province should the use of the property be changed.

The Commission sees merit in the Government's Farm Proposal but at the same time recognizes that the farmer does not want the entire tax bill on his land and buildings paid by the Province and that he has a genuine fear of the recapture provision. The Commission therefore recommends that the Province pay 90 percent of the tax on farmland and buildings and that recapture of the Province's share of the taxes be by means of a surcharge on the owner who converts it to a use other than farming. Agreeing with the present approach of the Farm Tax Reduction Program, the Commission feels that the person who benefits is not as important as what is done with the land, i.e., that it be used for farming. It is recommended that the Recommendations also include managed forests. Provision is also allowed for a farmer to retire or a surviving spouse to continue to live on the farm and not farm it, without a surcharge.

The farm residence and a reasonable amount of land, it is recommended, should be taxed on 50 percent of market value with the taxes paid by the owner. This treats farm residences as all other residences. A farm residence on a severed lot, equal in all respects to a farm residence on an unsevered reasonable amount of land, would carry a higher market value by virtue of the severance.

Upon application by the farmer, the entire tax bill can be paid by the farmer.

Summary of Recommendations

III.4:R1 That farmland, together with farm buildings be assessed at 100 percent of market value, and that the farmer pay 10 percent

of the resulting property tax, while the remaining 90 percent be paid by the Province.

- III.4:R2 That legislation be enacted to provide for a surcharge payable by the owner of farmland who converts its use to purposes other than farming, and that the surcharge be calculated as the property taxes paid by the Province during the 10 years preceding such change in use, together with simple interest thereon at the weighted average annual bank prime lending rate.
- III.4:R3 That for purposes of the Recommendations in respect of farmland and the farm buildings thereon, assessable farm real property be defined as such land and buildings as are being used as part of a farm operation that produces farm products valued at not less than \$2,000 in a normal productive year.
- III.4:R4 That the Recommendations made in respect of farmland and farm buildings be made to apply to managed forests, and that a managed forest be defined employing the criteria now in use for purposes of the Managed Forest Tax Reduction Program.
- III.4:R5 That where farmland ceases to be farmed in the event of the death of a farmer or spouse and the survivor continues to reside on the property, the lack of use of the farm as a farm shall not constitute a change of use. Similarly, where a farmer retires from farming due to age or infirmity but continues to reside on the farm, lack of use shall not constitute change of use.
- III.4:R6 That a farm residence, together with a reasonable amount of land, be taxed on 50 percent of market value, and that the tax be paid by the owner.
- III.4:R7 That the municipality, upon application by the farmer, submit to him for payment the billing for property taxes in respect of 90 percent of the farmland and the farm buildings thereon, and which in the absence of such an application would have been submitted to the Province for payment.

5. Business Assessment

For the purposes of a business assessment, the Commission determined that a business connotes an activity or “busy-ness” and that the activity is conducted in the hope of “profit” as broadly defined by the Commission.

The Commission supports a business tax on the grounds that there are no practical alternative sources of such funds—not from provincial grants or from the property tax. The business tax should be levied on the occupant, rather than the owner, as levying the tax on the owner could cause undue hardship if the occupant did not meet his obligations.

To relieve problems in the collection of business taxes, it is recommended that the Province consider preferred creditor status for municipalities which must collect business taxes that are in arrears. To overcome the problems of land-intensive operations, the Commission recommends that business assessment not apply to land in excess of the building and a reasonable amount of land, where the business activity actually takes place. Golf courses and ski hills therefore would not be subject to business assessment while club houses and pro shops would.

The business assessment should apply to businesses which are conducted on real property exempt from assessment or taxation. No exemption from business assessment should be given because the activity is limited to membership in an organization or by any other stipulation. This Recommendation clarifies the position of credit unions and real estate boards with respect to business assessment. The Commission does not feel that government administration falls within its definition of business and therefore rejects the Government's Proposal to pay business tax on such facilities.

The Commission sees no justification for differential business assessment rates. In order to raise approximately the same amount of tax as at present, the Commission recommends a single business assessment rate at 50 percent of market value. The Commission does not feel that a rate of 50 percent would cause undue hardship to those businesses currently paying at 25 and 30 percent rates because of numerous other changes being made to the system which would be to their possible advantage.

As in the case of residential rentals, the Commission recommends a flow-through to tenants of tax increases and decreases for a period of up to five years.

Summary of Recommendations

III.5:R1 That there continue to be a business assessment; and that the business tax be levied upon the occupant of real property who conducts therein an activity with a view to profit as defined; and that the business assessment be computed at a percentage of the market value of that real property.

III.5:R2 That the Provincial Government explore the feasibility of amending existing statutes so as to grant preferred creditor status to municipalities in respect of a default in the payment of business taxes, but that the business tax not constitute a lien upon real property.

III.5:R3 That the business assessment apply to that part of the real property that is actually occupied for the conduct of the business and a reasonable amount of land required for that purpose; and that the business assessment not apply to land in excess of this requirement.

- III.5:R4** That the business tax apply even though the business may be conducted in real property which is exempt from real property assessment or taxation.
- III.5:R5** That no exemption from business tax apply by reason of service or sale to a clientele restricted by a stipulation of membership, or any other stipulation.
- III.5:R6** That the business tax not be applied with respect to government administrative facilities, but that it be applied to such organizations as have the character of a business.
- III.5:R7** That a single business assessment rate at 50 percent be applied to the market value of real property as described in our discussion under Proposal 5, and that Section 7 of The Assessment Act be revised accordingly.
- III.5:R8** That, as in the case of rental residential property, legislation be enacted by which a landlord may pass to a tenant a real property tax increase resulting from property tax reform, and by which a tenant may claim from a landlord a real property tax decrease resulting from property tax reform; and that this operate regardless of existing contractual obligations; and that these rights be limited to the unexpired time period of an existing lease contract, or five years, whichever is the shorter.

6. Public Property

The Commission agrees with the Government's Proposal that all public property—local, provincial and federal—should be subject to payments in lieu of taxes; and that these payments be equal to full taxes on the market value of such property in a manner similar to the tax treatment of all other property.

The Commission rejects the criticisms relating to the complexities of administration of this Proposal, and states that the equitable tax distribution outweighs any possible administrative difficulties.

Responding to the fears expressed by local bodies concerning the taxation of their property, the Commission uses an illustration that clearly shows that there is no resulting tax increase to the taxpayers.

In order to ensure that the senior levels of government will not contribute a disproportionate amount of revenue to a local government, the Commission recommends a limitation on the percentage of the local levy that could be paid by senior governments.

If municipalities incur special costs because of operations conducted on unpatented land, the Commission recommends that the Provincial Government examine the need for special grant assistance.

Summary of Recommendations

- III.6:R1** That all public property be subject to payments in lieu of taxes in the manner suggested in this Report, and that a business tax apply to public utilities and government businesses.
- III.6:R2** That there be a provision limiting provincial payments in lieu of taxes to a specified part of the local tax levy (excepting local improvement charges), and that a similar limitation be provided in respect of payments in lieu of taxes made by the Federal Government.
- III.6:R3** That the Provincial Government examine the incidence of disproportionate costs arising out of operations conducted on unpatented land and make separate provision in the grant structure to alleviate the pressure on ratepayers in these circumstances.

7. Exempt Property

In order to deal with this subject the Commission examines four separate categories of property.

- (a) Property Owned by Churches, Cemeteries, and Land Held in Trust for a Band or Body of Indians

The Commission recommends that such property continue to be exempt and it includes in its Recommendation convents and religious seminaries. It however restricts the exemption of church property to a place of worship and the land essential to that purpose. The assessment of any such property would be excluded for grant distribution purposes.

The Commission further recommends that legislation be enacted to permit municipalities to impose a user fee, for direct municipal services, on churches, seminaries and convents.

- (b) Property Owned by Charitable and Non-profit Institutions

The Commission agrees with the numerous submissions made to it by these institutions, that a tax exemption is an appropriate mechanism in aid of charitable and non-profit organizations. It feels that the existence of such organizations is of a direct benefit to the local community. It therefore recommends that a Committee be established, made up of a representative from each local government body which has an interest in the taxation of the property for which an exemption is requested. This Committee will be able to grant an exemption from taxes for all purposes to a charitable or non-profit institution, for a period of up to five years. A municipality will, in addition, continue to have the right to make grants to such organizations at their own cost.

In order that taxpayers be fully informed of the aggregate annual cost of such exemptions, the Commission recommends that each affected ratepayer be provided with this information.

To allow adequate time for the Committee to consider the applications for tax exemption, the Commission recommends that tax exemptions as now exist continue throughout the first year of the new property tax system.

The Commission recommends that present statutory exemptions be repealed and that no further legislation be enacted permitting property tax exemptions.

(c) Property Owned by Private Schools

The Commission agrees with the submissions of private schools that taxation of their property would place their continued operation in serious jeopardy. It also recognizes that the existing exemptions are unfair, but that the removal of such exemptions, without other measures, would be equally unfair.

It therefore recommends that property owned by private schools be subject to taxation, but that the Province pay grants to such private schools equal to the property taxes. In the event of the sale of private school property, and unless the proceeds are used for educational purposes in Ontario, the Province will reclaim up to 10 years' payments together with interest.

The Commission feels that, because of the Government's policy with respect to public support of private schools, and because it does not wish property tax reform to founder on this issue, an alternative recommendation should be made. It therefore recommends that, in the alternative, the exemption from property tax continue to apply to the property of private schools and that the Province pay a grant equal to the taxes foregone directly to the municipality.

(d) All Other Exempt Property

The Commission agrees that highways, roads, and minerals continue to be exempt from property taxation. It also rejects the assessment and taxation of underground mining operations. It does, however, suggest that the Government examine the special circumstances of northern mining communities.

Summary of Recommendations

III.7:R1 That such real property as is actually used as a place of worship, together with only such land as is essential to that purpose, be exempted from taxation; and that convents and religious seminaries, together with such land as is necessary to their operation, including land for the production of food consumed in such a convent or seminary and is contiguous thereto, be exempted from taxation.

III.7:R2 That legislation be enacted to permit a municipality to impose, at its option, a user fee upon a church, a convent or a religious

seminary, in respect of direct municipal services rendered to such a body.

- III.7:R3 That cemeteries continue to be exempt from taxation.
- III.7:R4 That assessment values of places of worship, convents and religious seminaries together with the related land, and of cemeteries, not be added to total assessment values for grant distribution purposes.
- III.7:R5 That land held in trust for a body or band of Indians be exempt from assessment to tax.
- III.7:R6 That exemptions not be partial, but be in respect of all property taxes for whatever purpose.
- III.7:R7 That exemption from taxation in certain circumstances continue to apply to charitable and non-profit organizations as evidenced by the nature of their activities; and that such exemptions remain in effect for a period of up to, but not exceeding, five years.
- III.7:R8 That an Exemption Review Committee be established, on which shall serve a representative of each of a municipal council, a public school board, a separate school board, a county or a regional government as the case may be, and as have an interest in the taxation of the real property in respect of which an exemption is requested.
- III.7:R9 That the decision of the Exemption Review Committee be determined by a majority vote, and that in the event of a tie, the chairman must break that tie.
- III.7:R10 That the decision of the Exemption Review Committee not be subject to appeal by the requesting organization, nor by such municipality, public school board, separate school board or upper tier body as may have participated in that decision.
- III.7:R11 That the assessment at market value of the real property exempted from tax by the Exemption Review Committee, continue to be included with taxable assessment for grant purposes.
- III.7:R12 That a municipality may continue to make such grants as are currently permitted, and that such grants not bear upon any other local body or school board.
- III.7:R13 That tax exemptions of real property such as now exist, be continued throughout the year immediately following the implementation of property tax reform, and that where assessment related to such real property is not now included for grant purposes, it not be included during the course of that year.

- III.7:R14** That the aggregate annual cost, as measured by the tax foregone for all purposes in respect of such exempted real property as is owned by charitable and non-profit organizations, be provided to each affected ratepayer.
- III.7:R15** That all statutory exemptions of the property tax be repealed, except those referred to in Recommendations III.7:R1, III.7:R3, and III.7:R5, but including those arising from private members' bills; and that in future, a private bill or a private member's bill seeking an exemption from property taxes, not be enacted.
- III.7:R16** That exemptions from property tax, heretofore extended to private schools be removed; and that the real property owned by private schools carry a taxable assessment at 100 percent of its market value; and that where such property is residential property it carry a taxable assessment at 50 percent of its market value.
- III.7:R17** That the Provincial Government, upon implementation of property tax reform, pay grants to private schools in the precise amount of the property tax paid by such private schools.
- III.7:R18** That the Provincial Government keep account of all such payments to private schools, and that the Government reclaim a maximum of 10 years' payments, together with simple interest thereon at the weighted average annual bank prime lending rate, in the event of a sale of the relevant real property of such a private school, except where all of the net proceeds of such a sale are used for education purposes in the Province of Ontario.
- III.7:R19** That in the alternative, exemption from a tax on real property continue to apply in respect of real property owned by a private school; and that the assessment at 100 percent of the market value of such real property be included in the assessment for grant purposes; and that the Government pay a grant to an affected local government in the amount of the tax it has foregone perforce of the exemptions; and that such a grant be paid in addition to grants which would otherwise apply.

8. Phasing-In Tax Reform

While a number of submissions felt that a phasing-in scheme was not necessary or desirable, the Commission agrees with the Government's Proposal that a permissive mechanism should be available to municipalities to phase-in tax changes for a period of up to five years. The Commission considers that the existing legislative provisions are adequate for this purpose, but that technical assistance from the Province may be required.

Summary of Recommendations

- III.8:R1** That a uniform method of phasing-in the new tax system over a period of up to five years be available to prevent abrupt tax changes.

9. Return of Assessment Rolls

The Commission concurs with the Government's Proposal to return assessment rolls and to perform enumerations every two years to coincide with local government elections. It, however, recommends that the annual right of appeal be retained and that updated assessment rolls be provided annually to all local bodies.

Summary of Recommendations

- III.9:R1** That assessment rolls be returned and enumeration be performed every two years to coincide with local government elections.
- III.9:R2** That the annual right of appeal be maintained and that tax-payers be advised in the off-year of this right by means of notices published in local newspapers, setting out the dates in which an appeal may be lodged.
- III.9:R3** That continuous updating of assessment information take place, including updating in respect of changes in the designation of school support.
- III.9:R4** That an updated roll be forwarded in each off-year to all local bodies.

10. Government Property School Support

The Commission recommends that the assessment of government property be pooled and assigned between the public and separate elementary schools in the same proportion as the taxable assessment is assigned by the owners and occupants of residences. It recommends that public school boards and separate school boards each be permitted to assign the taxable assessment of their own property to the support of their own school system. Roman Catholic hospitals, universities, etc., should be able to assign their assessment for separate school support.

Several anomalies in the present method of assigning school support are reviewed. The Commission rejects the proposition that the assessment of government properties should be assigned on a per pupil basis between the public and separate school systems. It states that the local base of education support is property and not population or children accommodated in each property.

Consideration is given by the Commission to recommending the pooling of non-assigned commercial and industrial assessment. Although one member of the Commission felt that such a recommendation should be made, the other members felt that they did not possess adequate information concerning the possible cost consequences of such a change. Accordingly, the Commission suggests that the Government undertake studies to determine the merits of such a recommendation.

Summary of Recommendations

III.10:R1 That assessment of all government property be pooled and assigned between the public and separate elementary schools in the same proportion as the taxable assessment assigned by the owners and occupants of residences; and that the pooling of taxable assessment be extended to incorporate all taxable assessment in respect of which a senior government will make payments in lieu of taxes.

III.10:R2 That public school boards and separate school boards each be permitted to assign the taxable assessment of their own real property to the support of their respective school systems.

11. Shared Costs

The Budget Paper Proposal stated that costs should be shared among municipalities on the basis of the assessment on which taxes and payments in lieu of taxes are based.

The Commission finds this Proposal to be logical and to have a broad measure of support. It therefore endorses the Government's Proposal, but suggests a possible alternative technique to achieve the same result. Rather than apportioning costs shared among municipalities on the basis of assessment, each local authority could calculate the mill rate required to raise the necessary revenue on the total assessment within its jurisdiction, and then request the local municipality to add the mill rate to its own.

Summary of Recommendations

III.11:R1 That costs shared among municipalities be shared in the manner suggested in this Report.

12. Grants Based on Assessment

As this Proposal of the Government is a logical extension of Proposal 10 and is consistent with the Commission's reasoning, it is endorsed.

Summary of Recommendations

III.12:R1 That where assessment is to be used to determine the grant to be paid to a municipality, the assessment used be the assessment on which taxes and payments in lieu of taxes are based, in the manner suggested in this Report.

13. Unorganized Areas

The Commission concurs with the Government's Proposal to assess all real property in Ontario, including areas without municipal organization, under the provisions of The Assessment Act. It agrees that the rates of tax will require review. It also suggests that all real property in such unorganized areas be subject to a contribution in respect of education costs.

Summary of Recommendations

III.13:R1 That the provisions of The Assessment Act apply to the assessment of all real property in Ontario, including areas without municipal organization.

14. Grant Supported Bodies

A number of submissions were made to the Commission by public bodies requesting that, if their property was to be taxed, such taxes be fully grant supported by the Province. The Commission, however, thinks that an expenditure for property taxes should be included as an element for grant support and should receive the same weight of grant support as all other expenditures such as salaries, light, heat, water, etc. Where the grant formula presently has ceilings, these may require adjustment with the introduction of this new expenditure.

Summary of Recommendations

III.14:R1 That public bodies which receive provincial grants, such as school boards, be allowed to include their property tax payments as allowable expenses for grant purposes, and that existing grant ceilings be revised so as to ensure that the property tax outlay of grant supported bodies attract the same grant support as do other grant supported expenditures.

15. Property Tax Credit

The Commission reviews the various methods now available to provide assistance to senior citizens and low income persons in the payment of property taxes. It concludes that age should not be a determining factor, only a lack of income. It therefore recommends that

the funds now provided under The Municipal and School Tax Credit Assistance Act and under the Pensioner Tax Credit be transferred to a single Occupancy Tax Credit. It also recommends that income for purposes of the Occupancy Tax Credit be defined as total income less personal exemptions, to more clearly recognize income in need of support.

Because the review of test data indicates a sizeable reduction in property taxes on rental residential accommodation, the Commission recommends that the occupancy cost of tenants be defined as 10 percent of total rent.

In the belief that everyone should contribute in some measure to the operation of local government, the Commission recommends that at least 10 percent of the property tax or occupancy cost should be met by owners or tenants. It therefore recommends that support be confined to 90 percent of the property tax of owners or to 90 percent of 10 percent of total rent paid by tenants.

Because the present maximum of \$500 under the Ontario Tax Credit System could interfere with delivering effective support to those with demonstrated need, the Commission recommends that this limitation be removed.

The Commission's Recommendations, without increasing the present level of provincial support, will provide a measure of assistance to all taxpayers with incomes, as defined, of \$7,500 and below. The upper limit represents total income of \$12,200 for a taxpayer with a wife and two dependent children under 16 years of age.

Since welfare support is not taxable income, the Commission recommends that welfare payments be determined after taking into consideration the funds available to a welfare recipient under this new Ontario Occupancy Cost Tax Credit.

The Commission considers the matter of the business tax and the need for treatment similar to the suggested Ontario Occupancy Cost Tax Credit. Because of the vagaries in determining business income, and the variety of organizational structures in which business is conducted the Commission concludes that an income tax credit mechanism could not be used.

The Commission examined data for specific business enterprises which displayed large tax increases and found that increases could not be considered in isolation of the nature of the business. It concludes that the problems faced by a businessman are much broader than a property tax dollar, a wage dollar or a depreciation dollar; none weigh heavier or lighter than another. The economic environment in which businesses operate is of far greater impact. The Commission therefore concludes that the problems of the businessman should not be relieved through the property and business tax.

Summary of Recommendations

- III.15:R1** That The Municipal and School Tax Credit Assistance Act be replaced by a more effective measure.
- III.15:R2** That the Ontario Pensioner Tax Credit be replaced by a more effective measure.
- III.15:R3** That “Taxable Income” not be used for the purpose of the Ontario Property Tax Credit; and that instead, “Total Income less Total Personal Exemptions” be used for this purpose.
- III.15:R4** That support by means of the Ontario Property Tax Credit be confined to 90 percent of the property tax related to an owner-occupant of residential real property; or to 90 percent of 10 percent of the total rent paid in a year by a tenant of residential real property.
- III.15:R5** That the existing maximum of \$500 in respect of the Ontario Tax Credit System be removed; and that no arbitrary ceiling be established for purposes of an occupancy cost tax credit, other than the one implicit in these Recommendations.
- III.15:R6** That for purposes of the Ontario Occupancy Cost Tax Credit, a schedule be included with the individual income tax return, so as to permit a progressively larger amount of support as income for this purpose diminishes.
- III.15:R7** That welfare support payments be determined after taking account of funds available to a welfare recipient as a result of the Ontario Occupancy Cost Tax Credit.

Chapter IV

Implementation

The Commission expresses its concern over the delay in the introduction of market value assessment and the problems that would be encountered upon a further delay. It therefore recommends that the 1975 market values be returned in 1977 for taxation in 1978. However, the Commission does recognize the extremely tight timetable which might make implementation difficult in 1978, and therefore recommends that 1975 market values be shown on 1977 assessment notices even if implementation is further postponed.

The Commission rejects suggestions of piecemeal implementation and recommends that phasing-in be confined to the effects on taxes only and that there be no phasing-in of the tax measures themselves. It recognizes that effecting the mechanics of phasing-in tax changes might prove burdensome, particularly in some rural areas, and therefore recommends that the Province provide any necessary technical assistance.

In response to some fears expressed to the Commission that the change to market value and the accompanying tax reform measures might be used to camouflage tax increases, the Commission recommends that the Government apply expenditure guidelines to local government bodies, and that ratepayers be informed of such guidelines.

Because of the cost implications of the present permissive legislation allowing separate tax bills to be issued for municipal and school purposes, the Commission recommends that this legislation be rescinded.

Summary of Recommendations

- IV:R1** That a revised property tax system based on 1975 market value assessment be implemented in 1977 for application in 1978.
- IV:R2** That 1975 market values be shown on the 1977 assessment notices even in the event of a further postponement in the implementation of tax reform.
- IV:R3** That a phasing-in of the new tax system be a phasing-in of the effects on taxes and not a phasing-in of the tax reform measures themselves.

- IV:R4** That the Government provide technical support where required in order to assist in the effective implementation of the tax reform measures.
- IV:R5** That the Government apply expenditure guidelines to all local bodies in order to ensure that changes in assessment and the tax reform measures not be used as camouflage to hide extraordinary increases in local spending, and that ratepayers be informed of such guidelines in a meaningful fashion.
- IV:R6** That legislation permitting a municipality to forward to each ratepayer a separate tax bill for municipal and school board purposes, be rescinded.

